

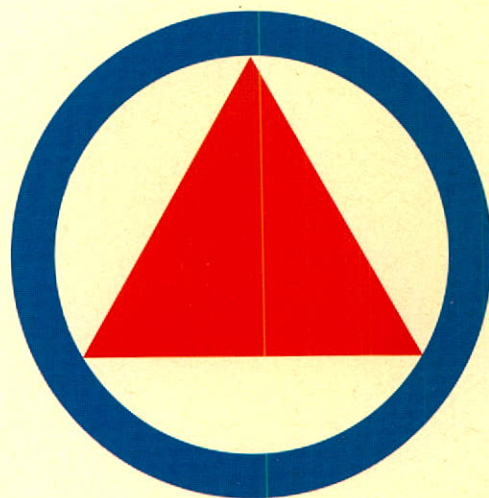
Standard Aero Engine Limited
Citation Cabinets Ltd.
Thunder Bay Terminals Ltd.
The White Pass and Yukon Corporation Limited
Neptune Bulk Terminals Ltd.



Federal Industries Ltd.
Forty-Ninth
Annual Report
1978

Financial Highlights

	1977-78	1976-77
Sales and Services	\$123,775,055	\$103,139,378
Earnings before income taxes and extraordinary items	1,965,421	1,545,641
Net earnings before extraordinary items	353,984	972,219
Net earnings (loss)	(2,515,543)	1,481,880
Earnings (loss) per share:		
Including extraordinary items	\$(.73)	\$.43
Excluding extraordinary items	\$(.01)	\$.17
Dividends per common share:		
Class A	\$.35	\$.40
Class B	\$.35	\$.34



Federal Industries Ltd.

Report to Shareholders

We present the Annual Report and audited statements of Federal Industries Ltd. and subsidiaries for the year ended March 31, 1978, the Company's forty-ninth fiscal year. Net loss for the year, excluding extraordinary items, amounted to 1¢ per share compared to the prior year's earnings of 17¢ per share. After including extraordinary items, the net loss per share was 73¢ compared to net earnings of 43¢ per share in 1977. The extraordinary loss relates primarily to the write-off of goodwill arising from the 1973 acquisition of Citation Cabinets.

Sales and Services for 1978 were \$123,775,055, an increase of 20%. The return of White Pass to normal volumes after a strike-filled 1977 and sales gains in Standard Aero accounted for the majority of this increase.

The overall results for the past year were very disappointing and well below original expectations. Although Standard Aero Engine had record sales and profits, and Neptune Bulk Terminals experienced satisfactory results, earnings of White Pass were unsatisfactory and Citation Cabinets suffered a significant loss. With little immediate change anticipated in the Company's economic climate, it was felt that a more conservative dividend policy would be appropriate. As a consequence, and in the interests of conserving cash to meet future requirements, your Directors reduced the quarterly dividend payable April 1, 1978 to 5¢ per Class "A" and Class "B" share from the previous level of 10¢ per share.

On April 1, 1978, two subsidiaries, Standard Aero Engine Limited and Citation Cabinets Ltd. were amalgamated to form a new company, Standard Aero

Limited. This action will permit the full use of accumulated tax losses incurred by Citation.

During the year, management reassessed its involvement in Citation Cabinets, resulting in decisions to restructure operations and to write off the related goodwill of \$2,596,327. Manufacturing activities now are restricted to Richmond, B.C. facilities and substantial reductions have been made in overhead expenses. It is the intention of the Company to dispose of its interest in Citation Cabinets as expeditiously as possible.

To offset an anticipated significant decline in tonnage to be handled by White Pass, and in response to adverse operating results, a substantial cost reduction program has been undertaken at White Pass, from which the company expects to derive material savings.

Thunder Bay Terminals Ltd., the major coal transshipment terminal under construction in Thunder Bay, Ontario, is due to commence operations in August 1978. The Company expects this facility to contribute significantly to operational income in the 1979 and subsequent fiscal years.

Effective May 2, 1978, certain changes were made in the management of your Company. Mr. A. S. Leach, formerly Chairman of the Board, was appointed Honorary Chairman, and Mr. S. A. Searle, formerly President, became Chairman of the Board. Mr. J. F. Fraser joined the Company as President and was appointed to the Board of Directors. During his twenty-five year business career, Mr. Fraser has held senior executive positions in Canadian companies involved in transportation, manufacturing and distribution. Most recently he was President of Norcom Homes

Limited, one of Canada's largest manufacturers of modular/mobile housing.

Your Board of Directors believes that the management and corporate changes undertaken, together with the completion of Thunder Bay Terminals, the continued profit performance of Standard Aero and the disposition of Citation Cabinets, will provide the necessary impetus for future financial success.

The Directors express their sincere appreciation to all personnel for their efforts during the past difficult year. We also thank our shareholders for their continued understanding and support.

On behalf of the Board of Directors.

A. S. Leach

A. S. Leach,
Honorary Chairman

S. A. Searle

S. A. Searle,
Chairman

May 25, 1978



J. F. Fraser, President

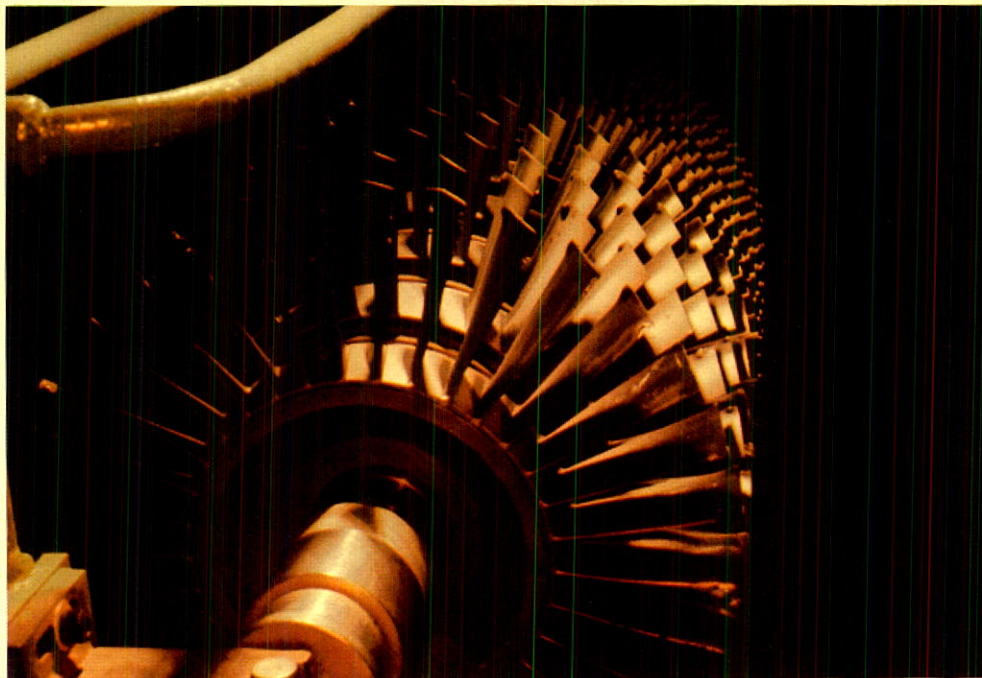


S. A. Searle, Chairman



A. S. Leach, Honorary Chairman

Standard Aero Engine Limited



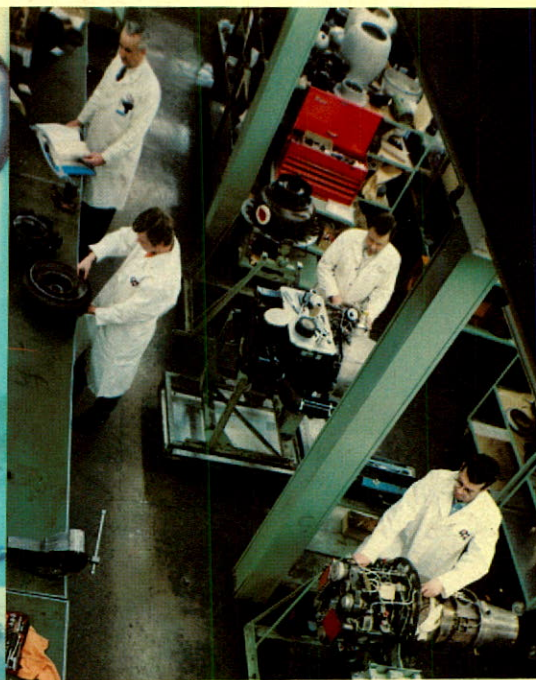
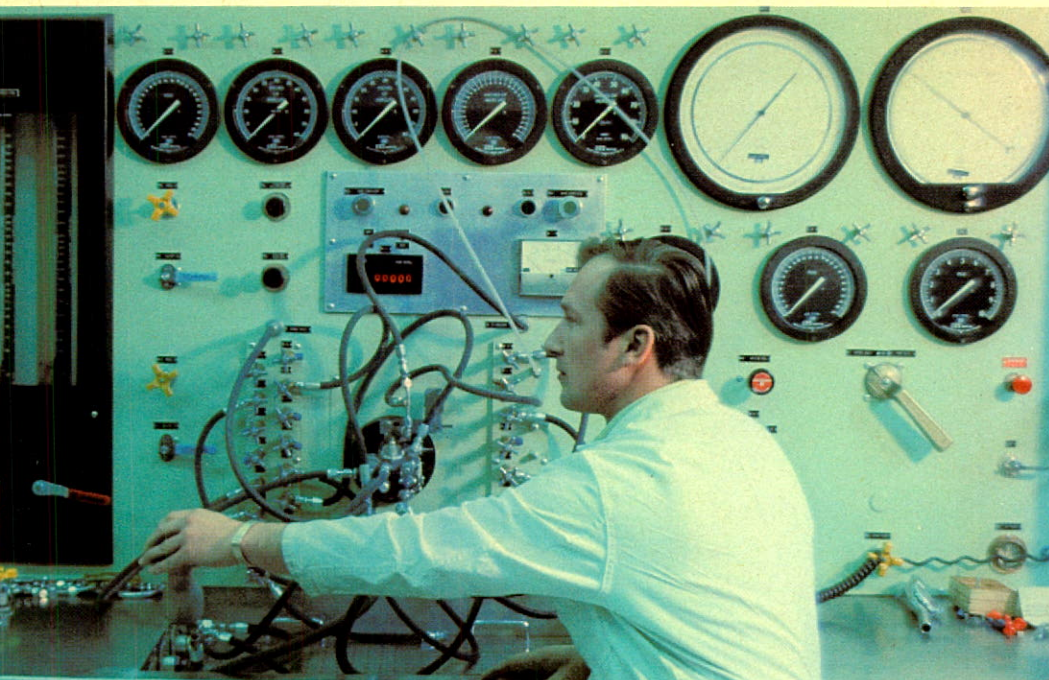
Standard Aero Engine located in Winnipeg, Manitoba, is the largest independent aircraft overhaul operation in Canada, and one of the largest in North America. The company is held in high regard for its work on piston and turbine engines used in a variety of large and small aircraft. Eighty percent of all non-military helicopters flying in Canada are serviced by Standard Aero. Canadian Government and international contracts also represent a large portion of the company's market.

In addition to overhaul work, Standard Aero operates seven branch offices across Canada to sell and service a wide range of general aviation components. The company is the sole Canadian dis-

tributor of the well-known Allison and Lycoming engines.

The 1978 fiscal year was very successful for Standard Aero, with sales and earnings improving satisfactorily over the previous year. A higher level of activity in the Canadian aviation industry, stimulated by northern natural resource development, and increased export sales were the major factors contributing to Standard Aero's record performance.

During the year, two new branch sales offices were opened, one in London, England, and another in Fredericton, New Brunswick. The London branch has already achieved a significant level of sales in its first six months and the outlook for European volume is most en-



couraging. The Fredericton branch enhances Standard Aero's coverage of the domestic market with locations now from coast to coast. The full range of Standard Aero's products will be sold through the Fredericton office to provide improved support to aviation in the Atlantic region.

A major expansion of Standard Aero's Winnipeg head office and overhaul facilities was also undertaken during the year. A twenty percent increase in turbine engine overhaul production space and improved office and cafeteria facilities were provided. This \$600,000 project was completed on schedule and on budget.

The devaluation of the Canadian dollar should not

impact unfavourably on profits from domestic sales and will aid export efforts. Standard Aero expects that the 1979 fiscal year will bring both increased sales and earnings.

Citation Cabinets designs, manufactures and assembles kitchen cabinets, bathroom vanities and a variety of other household items at its plants and warehouses in Richmond, British Columbia and Calgary and Edmonton in Alberta.

Its products are sold to retail, commercial and industrial firms through a network of direct sales branches and dealers from Winnipeg to Vancouver Island. The company has

recently developed export business ranging as far afield as the Middle East but with particular emphasis on the United States and Japan.

As noted in the Report to Shareholders, Citation experienced operating losses of a magnitude unacceptable to the Company. These losses were due primarily to two factors. Sales declined by more than twenty percent, resulting in further underutilization of plant capacity, and the company experienc-

**Citation
Cabinets
Ltd.**



ed excessively high installation costs.

As these problems became evident, certain changes were made in the management of the company, and significant reductions in expenditures effected. Calgary manufacturing operations were transferred to Richmond, unprofitable sales outlets have been closed, and staff has been reduced.

In recognition of the poor earnings history of this

company, Federal Industries has decided to dispose of Citation at the earliest practicable time. The Company is aggressively pursuing a negotiated sale of the assets and undertakings and anticipates an early resolution of this situation.



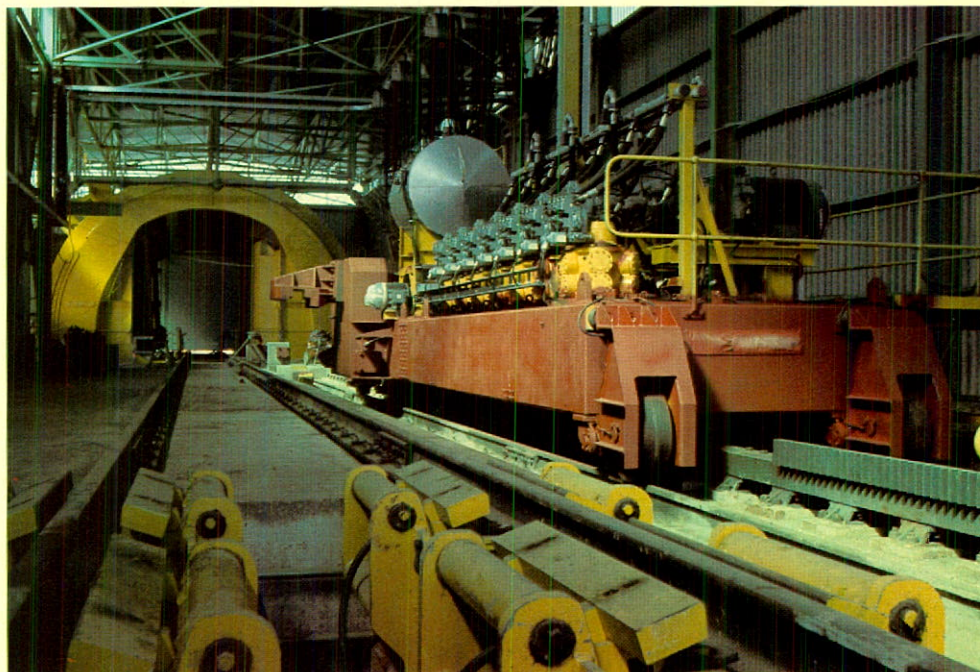
Substantial progress occurred during the year on the development of our new bulk handling terminal located in Thunder Bay, Ontario. Construction activities have generally remained within budget, long term financing and contractual arrangements have been finalized. We are preparing actively for the commencement of coal handling operations in 1978.

Construction will be completed in three phases. The receiving system to unload coal from unit trains and place it into storage should become operational during August. The shipping system to transfer coal from storage to ships will be completed during November. The third phase involving construction of a system to transport lignite coal

from our McKellar Island site to the Ontario Hydro generating station located on an adjacent island should become operational early in 1980. Over \$37,000,000 has been spent for the receiving and shipping systems, and only a minimal amount of engineering expenditures for the lignite system.

A \$65,000,000 private placement of first mortgage sinking fund bonds was arranged with institutional investors during the year to provide funds for the three construction phases of the terminal. The company has received \$37,000,000 of these proceeds to date with the balance due in September 1978 and September, 1979. Collateral support for the financing is provided by long term property leases and a handling agreement with

Thunder Bay Terminals Ltd.



Ontario Hydro.

Coal destined for Ontario Hydro thermal generating stations located on the Great Lakes will provide the initial product handled by the terminal. Two mines located in Alberta and British Columbia will ship about 1,000,000 tons to our terminal during 1978-79. Only a small portion of coal received on site this fall is expected to be shipped eastward prior to the close of navigation.

During the following fiscal year ending in March 1980, we expect that throughput from these mines will exceed 2,500,000 tons with all shipments destined for Ontario Hydro's Nanticoke generating station. Deliveries of lignite coal from Saskatchewan will commence early in 1980 at

an estimated throughput rate of 1,000,000 tons per annum.

Earnings will begin at a satisfactory rate during 1978 and will increase as coal throughput tonnage increases during the following two years.

The terminal's design will permit substantial and rapid expansion to accommodate increased coal tonnage as well as large volumes of other bulk commodities. We anticipate that the commencement of coal operations will stimulate the movement of additional products through the terminal.



The White Pass and Yukon Corporation Limited

White Pass and Yukon operates a totally integrated transportation system linking Vancouver and Whitehorse, Yukon. Two container ships operate between Vancouver and Skagway, Alaska, a 110-mile railway carries passengers and cargo between Skagway and Whitehorse, an oil pipeline

were not up to expectations because of two major factors. The depletion of mechanical staff in our highway operations during the lengthy strikes of 1976 created severe maintenance problems in 1977-78, resulting in unusually high operating costs, reduced equipment availability, and losses in our trucking



runs adjacent to the railway with bulk storage facilities at each end, and a fleet of trucks and trailers distributes goods throughout the Yukon and into Alaska, Alberta and British Columbia.

Revenues increased substantially, reflecting a return to normal operations in the Yukon mining industry after a year of major strike disruptions. Earnings improved somewhat compared to the previous year but

operations. The devaluation of the Canadian dollar increased costs of our operations in the United States by over \$580,000.

Under a new long term handling contract currently being negotiated with our largest customer, Cyprus Anvil Mining Corporation, the company is developing an entirely new configuration of highway equipment with the dual advantages of greater flexibility and improved payload. The equip-

ment is running satisfactorily, and we anticipate improved results from our highway operations.

During the summer of 1977, a record number of 75,630 passengers travelled on the railway, an increase of thirteen percent over the previous year.

The short term outlook for the company is clouded

reduction of approximately eighteen percent of the annual gross revenues of the company, and will have an adverse impact on earnings. In addition, the discount of the Canadian dollar will continue to affect the cost of our Alaska operations.

A comprehensive cost reduction program has been implemented to cope with

Alaska border) are expected to generate considerable growth in the Yukon and Alaska areas serviced by our transportation system. We expect to participate in this growth. In the longer term, development of the rich mineralized areas of the North will foster major new mining operations and offer the continuation of the



by a number of unfavourable developments. Cassiar Asbestos Corporation, which has been a major customer of White Pass for over twenty years, has announced the closure of its Clinton Creek mine in the Yukon Territory in June, 1978. Cassiar also intends to ship the output of its Cassiar, British Columbia mine through the port of Stewart, British Columbia commencing in 1978. These decisions will result in a

these situations, which will probably result in reduced frequency of ocean service, increased freight rates, and considerable reduction in staff.

Offsetting these unfavourable developments are the more encouraging long term prospects of White Pass. The recently announced Alaska Highway Gas Pipeline project and the Shakwak project (the paving of the Alaska Highway from Haines Junction to the

company's activities in this area.

Neptune Bulk Terminals Ltd.



Neptune, one of the major bulk-handling facilities on the North American west coast, is located on the north shore of Vancouver's Burrard Inlet in British Columbia.

Coal, potash, fertilizer, rapeseed oil and agricultural pellets, all export commodities, are transported to Neptune where they are loaded onto bulk-carrier ships for delivery to world markets. Products imported into Canada by vessel include phosphate rock, ore concentrates and salt. These are either stored at Neptune or loaded onto trucks or rail cars for delivery. Copper concentrates coming from the Yukon are shipped via the White Pass Route to Neptune in containers. The product is removed from the containers and then

shipped via rail cars to an eastern Canadian smelter.

Improved earnings at Neptune reflected a combination of record tonnage handled and minimal labour disruption on the waterfront and at our customers' mine sites.

Neptune's handling capabilities continue to be under-utilized, although the company is experiencing gradual growth in total throughput. Since bulk terminals have high fixed costs of operation, earnings are quite sensitive to changes in tonnage, and the company has adopted an aggressive marketing policy in its endeavour to increase volume. Potash tonnage handled during the year increased substantially and we anticipate continuing improvement. However, this gain may be partially



offset by the softening of demand for metallurgical coal moving to Japan from Canadian mines which use our facilities.

Feasibility studies for the development of a new bulk terminal near Prince Rupert are continuing. Recently the Federal government announced plans for the provision of road and rail access to Ridley Island, the contemplated site. Neptune is also actively engaged in examining the prospects for company involvement in the construction and operation of a terminal in one of the Maritime Provinces to handle potash from new mines being developed in New Brunswick.

On May 2, 1978, the company experienced a serious industrial accident. The counterweight on a major piece of coal-

handling equipment collapsed, resulting in the unfortunate death of an independent crane operator, and significant machine damage. At the date of this report, engineers are studying the situation to establish the cause of the accident. Coal operations are continuing under a temporary system, pending repairs to the machinery. The company carries insurance coverage in respect of business interruption, property damage and public liability.

Federal Industries Ltd. and its Subsidiary Companies

Consolidated Balance Sheet as at 31st March 1978

ASSETS	1978	1977
Current		(Restated) (Note 8)
Cash _____	\$ 271,794	\$ 2,746
Short term investments, at cost _____	2,250,000	—
Accounts receivable _____	18,501,531	16,557,407
Income taxes recoverable _____	87,828	1,072,608
Inventories _____	27,184,644	23,487,559
Prepaid expenses _____	743,049	493,941
Construction in progress - Note 2 _____	—	10,893,352
Total Current Assets _____	49,038,846	52,507,613
Fixed		
Property, plant and equipment, at cost _____	99,959,788	95,935,668
Accumulated depreciation _____	38,872,656	35,566,399
	61,087,132	60,369,269
Construction in progress - Note 2 _____	37,310,976	—
	98,398,108	60,369,269
Other		
Unexpended construction funds - Note 2 _____	4,376,327	—
Mortgages, agreements for sale, and other investments, at cost _____	513,784	483,231
Deferred charges _____	420,654	353,136
Goodwill, at cost less amounts written off and amortized - Note 3 _____	2,324,259	5,003,617
	7,635,024	5,839,984
	\$155,071,978	\$118,716,866

On behalf of the Board

S. A. Searle, Director

A. S. Leach, Director

LIABILITIES

1978

1977

Current		(Restated) (Note 8)
Bank indebtedness, secured _____	\$ 22,757,326	\$ 25,225,608
Accounts payable and accrued liabilities _____	17,946,591	13,759,202
Dividends _____	171,945	335,475
Current portion of long term debt _____	3,742,000	3,136,940
Total Current Liabilities _____	44,617,862	42,457,225
Long Term —Note 4 _____	59,395,552	22,033,522
Deferred Income Taxes —Note 5 _____	5,744,383	5,192,780
Minority Interest —Note 6 _____	5,500,000	5,500,000
Total Liabilities _____	115,257,797	75,183,527

Shareholders' Equity

Capital Stock

Common shares—Note 7 _____	14,367,300	14,367,300
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Retained Earnings _____	25,446,881	29,166,039
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Total Shareholders' Equity _____	39,814,181	43,533,339
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	\$155,071,978	\$118,716,866
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Federal Industries Ltd. and its Subsidiary Companies

Consolidated Statement of Retained Earnings for the Year Ended 31st March 1978

	1978	1977
		(Restated) (Note 8)
Balance, beginning of year		
As previously reported _____	\$28,812,039	\$28,868,719
Adjustment of prior years' earnings - Note 8 _____	354,000	191,000
As restated _____	29,166,039	29,059,719
Net earnings (loss) for the year _____	(2,515,543)	1,481,880
	26,650,496	30,541,599
Dividends - Class A shares _____	1,009,327	1,152,591
Dividends - Class B shares _____	194,288	189,524
Tax paid on 1971 undistributed income _____	—	33,445
	1,203,615	1,375,560
Balance, end of year _____	\$25,446,881	\$29,166,039

Federal Industries Ltd. and its Subsidiary Companies

Consolidated Statement of Earnings for the Year Ended 31st March 1978

	1978	1977
Sales and services—Note 9	\$123,775,055	\$103,139,378
Cost of sales and operating expenses—Note 10	114,169,266	93,193,351
Depreciation and amortization	4,618,700	4,699,131
Amortization of goodwill	144,000	147,600
Interest on long term debt—Note 1(d)	1,567,625	2,084,449
Other interest expense	1,310,043	1,469,206
	121,809,634	101,593,737
Earnings before income taxes and extraordinary items	1,965,421	1,545,641
Provision for income taxes—Note 5	1,611,437	573,422
Earnings before extraordinary items	353,984	972,219
Extraordinary items—Note 11	(2,498,327)	890,813
Net earnings (loss)	(2,144,343)	1,863,032
Earnings allocated to minority shareholders	371,200	381,152
Net earnings (loss) for the year	\$ (2,515,543)	\$ 1,481,880
Net earnings (loss) per common share	\$ (.73)	\$.43
Net earnings (loss) per common share, excluding extraordinary items	\$ (.01)	\$.17

Federal Industries Ltd. and its Subsidiary Companies

Consolidated Statement of Changes in Financial Position for the Year Ended 31st March 1978

	1978	1977
		(Restated) (Note 8)
SOURCE OF FUNDS		
Operations		
Net earnings (loss) for the year	\$ (2,515,543)	\$ 1,481,880
Add Depreciation and amortization	4,618,700	4,699,131
Amortization of goodwill	144,000	147,600
Deferred income taxes	551,603	(62,372)
Extraordinary items	2,498,327	(890,813)
Earnings allocated to minority shareholders	371,200	381,152
Gain on sale of fixed assets	(34,684)	(134,543)
Funds provided by operations	5,633,603	5,622,035
Adjustment of prior years' earnings—Note 8	—	354,000
Issue of first mortgage bonds, 9½%—Note 2	37,000,000	—
Additional long term debt financing	4,474,902	1,161,940
Proceeds on sale of fixed assets	393,260	559,609
Prior years' pension cost recoverable	98,000	890,813
	47,599,765	8,588,397
Decrease in working capital	5,629,404	1,874,682
	\$53,229,169	\$10,463,079
APPLICATION OF FUNDS		
Unexpended construction funds	\$ 4,376,327	\$ —
Purchase of minority interest in subsidiary company	—	926,743
Purchase of fixed assets	5,709,921	4,065,341
Construction in progress—Note 2	37,310,976	—
Decrease in long term debt	4,112,872	3,302,219
Adjustment of prior years' earnings—Note 8	—	163,000
Tax paid on 1971 undistributed income	—	33,445
Dividends	1,203,615	1,342,115
Dividends paid by subsidiary company to minority shareholders	371,200	371,252
Other	144,258	77,254
Excess of cost of subsidiary acquired over net book value	—	181,710
	\$ 53,229,169	\$10,463,079
WORKING CAPITAL, at end of year	\$ 4,420,984	\$ 10,050,388

Federal Industries Ltd. and its Subsidiary Companies

Notes to Consolidated Financial Statements for the Year Ended 31st March 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and all subsidiaries. The names of the subsidiaries, which are all wholly owned, are as follows:

Citation Cabinets Ltd.
Neptune Bulk Terminals Ltd.
Standard Aero Engine Limited
The White Pass and Yukon
Corporation Limited
Thunder Bay Terminals Ltd.

All material intercompany balances, transactions and profits have been eliminated.

(b) FOREIGN CURRENCY TRANSLATION

The accounts of certain subsidiaries are maintained in United States dollars. These accounts have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the end of the year; fixed assets, depreciation and long term debt substantially on the basis of rates prevailing at date of acquisition; income and expenses (other than depreciation) on the basis of average exchange rates during the year. Exchange gains or losses from such translation practices have been transferred to consolidated income or expense.

(c) VALUATION OF INVENTORIES

Inventories have been valued at the lower of cost and net realizable value.

(d) CAPITALIZATION OF CONSTRUCTION IN PROGRESS

All expenditures, including financing costs, being incurred by Thunder Bay Terminals Ltd. prior to the commencement of operations are being capitalized and included as construction in progress on the balance sheet.

(e) DEPRECIATION

Depreciation on property, plant and equipment is provided at rates which are estimated to amortize the original cost of such assets over their useful lives.

(f) GOODWILL

The goodwill on the balance sheet represents the excess of cost of shares of subsidiary companies over the book amount of net assets acquired, less amounts written off and amortized. The company's normal policy is to amortize goodwill over a forty year period.

(g) INCOME TAXES

The company follows the tax allocation method of accounting for income taxes whereby earnings are charged with income taxes relating to reported earnings. Differences between such taxes and taxes currently payable are reflected in deferred income taxes and arise because of differences between the time certain items of revenue and expense are reported in the accounts and the time they are reported for income tax purposes.

Potential tax reductions that may result from the application of losses against future taxable income are not recognized until such future taxable income is earned.

Federal Industries Ltd. and its Subsidiary Companies

Notes to Consolidated Financial Statements for the Year Ended 31st March 1978

2. CONSTRUCTION IN PROGRESS

(a) During the year, Thunder Bay Terminals Ltd. entered into a long term contract with Ontario Hydro for the construction and operation of a bulk handling terminal at Thunder Bay, Ontario. The total cost of the terminal is estimated to be \$65,000,000 of which \$37,310,976 has been incurred to 31st March, 1978. The cost of the terminal is being financed by the issue of up to \$71,500,000, aggregate principal amount, 9½% First Mortgage Sinking Fund Bonds, Series A. As at 31st March 1978, the Series A Bonds issued and outstanding

aggregated \$37,000,000. The terms and conditions of the Series A bond issue are provided for in a Deed of Trust and Mortgage dated as of 12th October 1977 between the company and the trustee for the bondholders.

(b) As at 31st March 1978 unexpended construction funds of \$4,376,327 were being held for the purpose of paying construction costs payable.

3. GOODWILL ON CONSOLIDATION

As a result of losses in Citation Cabinets Ltd., the Company has written off the unamortized balance of the goodwill arising on the acquisition of that subsidiary company.

4. LONG TERM DEBT

	1978	1977
Term bank loan, secured, 1¼% above prime rates	\$ 7,259,500	\$ 8,369,500
Income debenture, secured, 1¼% above one-half of prime rate	3,250,000	4,250,000
Purchase agreement, secured, due 1987*	3,027,437	3,397,626
Construction costs payable - Note 2	4,474,902	—
First mortgage bonds, 9½% - Note 2	37,000,000	—
First mortgage bonds, 8½% due 1989	1,504,000	1,670,000
Unsecured loan stock, 5½% due 1978	—	1,095,000
First ship mortgage note, 6½% due 1981	240,000	360,000
First ship mortgage note, 8½% due 1985	1,700,000	1,900,000
Mortgages payable, 9¾% - 11¼%	939,713	991,396
	\$59,395,552	\$22,033,522

The aggregate amount of maturities over the next five years are approximately as follows: 1979 - \$4,100,000; 1980 - \$2,800,000; 1981 - \$6,400,000; 1982 - \$6,700,000; 1983 - \$4,300,000.

*As part of the terms of another agreement with this creditor, this debt is now non-interest bearing.

Federal Industries Ltd. and its Subsidiary Companies

Notes to Consolidated Financial Statements for the Year Ended 31st March 1978

5. INCOME TAXES

The provision for income taxes is a high percentage of earnings before taxes due primarily to the fact that the substantial loss incurred during the year by Citation Cabinets

Ltd. could not be offset against the earnings of the other subsidiaries for income tax purposes. This effect may be illustrated as follows:

	Per Statement of Earnings	Excluding Citation Cabinets Ltd.
Earnings before income taxes and extraordinary items	\$1,965,421	\$3,649,421
Provision for income taxes	1,611,437	1,611,437
Effective percentage	82.0%	44.2%

As at 31st March 1978, Citation Cabinet Ltd. had accumulated loss carry forwards and other timing differences for income tax purposes amounting to approximately \$3,000,000 that are available to be applied against taxable

income in future years. To this end, Citation Cabinets Ltd. was amalgamated with Standard Aero Engine Limited on 1st April 1978.

6. MINORITY INTEREST

Minority interest is \$5,500,000 of 6¼% preferred shares of The White Pass and Yukon Corporation Limited (1977 - \$5,500,000).

7. CAPITAL STOCK

The authorized share capital of the company consists of:

- (a) 6,000,000 Class A convertible shares without nominal or par value.
- (b) 6,000,000 Class B convertible shares without nominal or par value.

The maximum consideration for the issue of these shares is not to exceed \$20,000,000.

The two classes of shares are interconvertible at any time and are similar in all respects, including dividend rights, except that dividends on Class B shares may be declared out of

tax paid undistributed surplus on hand or out of 1971 capital surplus on hand as defined in the Income Tax Act of Canada.

Where a dividend is paid on Class B shares out of tax paid undistributed surplus that dividend is reduced by the 15% tax paid on 1971 undistributed income on hand to create the tax paid undistributed surplus. Where a dividend is paid out of 1971 capital surplus on hand that dividend is not reduced.

At 31st March 1978, there were 3,438,900 shares issued and outstanding comprised of 2,883,355 (1977 - 2,877,901) Class A shares and 555,545 (1977 - 560,999) Class B shares.

8. PRIOR YEARS' ADJUSTMENTS

The adjustment of prior years' earnings relates to successful income tax appeals of The White Pass and Yukon Corporation Limited in respect of its 1970 to 1974 fiscal years

The adjustment of prior year's sick leave benefits relates to an accounting policy change of The White Pass and Yukon Corporation Limited from recording the costs when the benefits were actually received to recording the costs when the benefits were earned

1978	1977
\$354,000	\$354,000
—	(163,000)
\$354,000	\$191,000

Federal Industries Ltd. and its Subsidiary Companies

Notes to Consolidated Financial Statements for the Year Ended 31st March 1978

9. SALES AND SERVICES BY SUBSIDIARY COMPANY

	1978	1977
Citation Cabinets Ltd. _____	\$ 14,256,734	\$ 16,250,172
Neptune Bulk Terminals Ltd. _____	9,606,982	7,893,238
Standard Aero Engine Limited _____	29,618,939	23,967,893
The White Pass and Yukon Corporation Limited		
Transportation revenue _____	41,696,000	31,439,075
Petroleum sales and related revenue _____	28,596,400	23,589,000
	\$123,775,055	\$103,139,378

10. DIRECTORS' REMUNERATION

The aggregate remuneration of directors and senior officers of the company was as follows:

	1978				1977			
	As Directors		As Officers		As Directors		As Officers	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Federal Industries Ltd.	13	\$34,200	5	\$215,020	12	\$33,800	5	\$198,620
The White Pass and Yukon Corporation Limited	7	10,000	2	71,837	7	9,800	2	69,000
Thunder Bay Terminals Ltd.	3	400						

4 Officers are also Directors of the company (1977 - 3 officers)

11. EXTRAORDINARY ITEMS

	1978	1977
Prior years' pension costs recoverable, net of income taxes of \$102,000 (1977—\$925,100) _____	\$ 98,000	\$890,813
Write off of goodwill—Note 3 _____	(2,596,327)	—
	\$(2,498,327)	\$890,813

Federal Industries Ltd. and its Subsidiary Companies

Notes to Consolidated Financial Statements for the Year Ended 31st March 1978

12. CONTRACTUAL OBLIGATIONS

- | | |
|---|--|
| (a) The company and its subsidiary companies have lease commitments with varying terms requiring annual rental payments of approximately \$1,500,000. | (b) Commitments for capital expenditures at 31st March 1978 were approximately \$13,400,000. |
|---|--|
-

13. SUBSEQUENT EVENTS

- | | |
|---|--|
| (a) On 1st April 1978 two of the Company's subsidiaries, Standard Aero Engine Limited and Citation Cabinets Ltd., were amalgamated into one corporation which shall continue operations under the name Standard Aero Limited. | handling system of Neptune Bulk Terminals Ltd., but the company is continuing operations with a temporary system. The company carries insurance coverage in respect of business interruption, property damage and public liability. At the date of issuing these statements it is not possible to determine whether there will be costs, claims, or losses, if any, that will not be fully covered by insurance. |
| (b) On 2nd May 1978 an industrial accident occurred which shut down one of the main operating assets of the coal | |
-

14. ANTI-INFLATION LEGISLATION

The company and its subsidiaries are subject to the Federal Government's Anti-Inflation Legislation which became effective 14th October 1975. This Legislation limits increases in prices, profits, compensation payments and dividends.

Management has done the necessary calculations required to determine compliance and is of the opinion that there are no significant liabilities as a result of the Legislation.

Auditors' Report

Touche Ross & Co.
213 Notre Dame Avenue
Winnipeg, Manitoba R3B 1N3
(204) 942-0051

To the Shareholders,
Federal Industries Ltd.

We have examined the consolidated balance sheet of Federal Industries Ltd. and its subsidiary companies as at 31st March 1978 and the statements of retained earnings, earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Winnipeg, Manitoba,
19th May 1978.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at 31st March 1978 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants.

BOARD OF DIRECTORS

J. F. FRASER

President

Federal Industries Ltd.

* R. G. GRAHAM

President

Inter-City Gas Limited

R. N. HAMBRO

Director

Hambros Bank Limited

R. A. HUBBER-RICHARD

President

The White Pass and Yukon
Corporation Limited

A. S. LEACH

Honorary Chairman of the
Board

Federal Industries Ltd.

A. S. LEACH, JR.

Vice-President

Federal Industries Ltd.

* J. B. MacAULAY

Partner, Fraser & Beatty

Barristers and Solicitors

* A. V. MAURO

Executive Vice-President

The Investors Group

* J. D. RILEY

Company Director

J. D. SCOTT

President

Yukon River Industries Ltd.

C. L. SEARLE

Professor of Electrical Engineering
& Psychology

Queen's University

Kingston, Ontario

S. A. SEARLE

Chairman of the Board

Federal Industries Ltd.

*Member of Audit Committee

OFFICERS

A. S. LEACH

Honorary Chairman of the Board

S. A. SEARLE

Chairman of the Board

J. F. FRASER

President

A. S. LEACH, JR.

Vice-President

J. S. PELTON

Treasurer and Chief Financial Officer

W. D. DAVIE

Secretary

THE COMPANY AND ITS SUBSIDIARIES

FEDERAL INDUSTRIES LTD.

Ste. 2400 - One Lombard Place

Winnipeg, Manitoba R3B 0X3

Citation Cabinets Ltd.

Neptune Bulk Terminals Ltd.

Standard Aero Engine Limited

Thunder Bay Terminals Ltd.

The White Pass and Yukon

Corporation Limited

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company

Calgary, Montreal, Toronto

Vancouver and Winnipeg

Federal Industries Ltd.
Suite 2400, One Lombard Place
Winnipeg, Manitoba
R3B 0X3